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RUEHLH/AMCONSUL LAHORE 8479
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SUBJECT: CODEL LYNCH'S JANUARY 29 MEETING WITH SBP GOVERNOR RAZA,
PROGRESS ON AML BILL

REF:

A: 09 ISLAMABAD 2973
B: 09 ISLAMABAD 1992

(SBU) Summary: On January 29, a Congressional Delegation led by Representative Stephen Lynch met with State Bank of Pakistan Governor Salim Raza and Financial Monitoring Unit Director General Azhar Qureshi. Qureshi detailed the progress that Pakistan made in reforming its Anti-Money Laundering and Countering the Financing of Terrorism regime in the past couple years. Most notably, Qureshi explained that Pakistan's Parliament is close to passing Pakistan's first anti-money laundering law, which will provide a permanent legal framework that no longer relies on executive ordinances. Separately, Governor Raza provided insight on the global economic crisis from his days as a commercial banker. Raza believed that as financial sector develops new regulations, it find the proper balance in protecting depositor assets and ensuring there is enough liquidity for investment in developing economies. End Summary.

Pakistan Makes Strides on AMF/CTF legislation

12. (SBU) Representative Lynch congratulated Raza and Qureshi for the recent passage of the 2009 AML bill in the National Assembly, and hoped that final approval in the Senate would be quickly forthcoming. Lynch said that establishing a permanent AML Law was a great step forward for economies wishing to protect their financial sector from criminal malfeasance. He noted that the U.S. Treasury Department has excellent programs to help countries improve their anti-money laundering and countering the financing of terrorism (AML/CFT) regimes and Financial Intelligence Units (FIU). (Note: The FMU is Pakistan's FIU. End note.). Treasury Attache elaborated on Treasury's efforts in AML/CFT technical assistance, which has included the provision of tailored AML/CFT training courses to the staff of the FMU, in addition to several other Pakistani agencies responsible for investigating financial crimes. Treasury also plans to provide a resident advisor to the FMU to assist in the training of thirty new FMU staff to be hired by June.

13. (SBU) Qureshi welcomed Lynch's remarks, and noted that, while Pakistan criminalized the financing of terrorism under the Anti-Terrorism Act of 1997, it was not until late-2007 that money laundering was criminalized under the first Anti-Money Laundering Ordinance (AMLO). Despite this achievement, Qureshi provided a frank assessment of the 2007 AMLO and the 2009 AMLO deficiencies in

meeting Financial Action Task Force (FATF), Asia Pacific Group (APG), and Egmont International Standards (ref A). Among the most salient problems with the current AMLO, Pakistan still required a mutual legal assistance treaty (MLA), or some other bilateral agreement, with a country in order for the FMU to exchange information. Qureshi commented that the Finance Ministry was cooperating with the Ministry of Law to immediately draft an amendment to the future AML Law to address the information exchange issue. Overall, Qureshi felt that Pakistan lacked a comprehensive framework for international cooperation and information sharing, but hoped the Government would correct the issue before Pakistan sought Egmont membership in May 2011.

¶4. (SBU) Congressman Lynch asked Qureshi what challenges he encountered combating money laundering and terrorist financing in a largely cash based economy. Qureshi quickly acknowledged that the 1992 Protection of Economic Reform Act did not put restrictions on the amount of cash one could courier into the country, and made enforcement of bulk cash smuggling problematic. The Federal Investigation Agency (FIA) and Customs officials still had discretion to stop someone at the border or the airport if they had suspicion of a crime, but this happened infrequently and was legally problematic for the FMU. (Note: Customs officials are legally prohibited from sharing information with the FMU.) Qureshi explained that due to strict foreign exchange controls at the time, the Government in 1992 created lax courier laws to encourage other ways of bringing money into the country. However, the recent reforms of the Pakistan Remittance Initiative corrected most of the tough foreign exchange rules, and made remitting money through banks and legitimate foreign exchange companies easier for expatriates (ref B). Lynch commented that Pakistan should try using currency

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transaction reports, which do not lead to arrest or detention. That information could possibly then be shared with neighboring countries and FIUs to determine patterns of abuse.

Governor Raza on the Global Economy and Bank Regulation

¶5. (SBU) Governor Raza provided his insight on the affects of banking deregulation on the global economic crisis. Representative Bob Inglis asked Governor Raza what advice he would give FED Chairman Bernanke, as one central banker to the other, if given the opportunity. Raza answered that no commercial banker over the age of 40 understood the mathematical models and derivatives used by younger investors in banks and hedge funds. Raza further recalled his colleagues were prevented from using their depositors' assets and engaging in risky trading, and instead used only the partners' assets. However, Raza said that despite all of the bad press associated with investment banking in the past decade, it did provide much needed liquidity for some emerging economies. Raza felt that, as new regulations are developed in the banking sector, it was important to find a balance for protecting depositors and ensuring there is enough liquidity for worthwhile investments.

¶6. (U) Participants:

U.S.
Representative Stephen Lynch
Representative Bob Inglis
Representative Bob Platts
Representative Betty Sutton
Representative Joe Donnelly
Deputy Chief of Mission Gerald Feierstien
Scott Lindsay, Majority PSM for House Oversight and Government Reform
Erin English, U.S. Treasury Attache
Alamanda Gribbin, Embassy Control Officer

Pakistan
Governor State Bank of Pakistan Salim Raza
Director General Financial Monitoring Unit Azhar Qureshi